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Editorial: Help for homeowners

Bankruptcy judges can restructure the mortgages of troubled businesses. They also can restructure mortgages on vacation homes. But they don't have that option for the real estate that's arguably the most important: your home. That means that many who could pay a mortgage if their loan were restructured lose their homes.

Brad Miller, who represents North Carolina's 13th District in Congress, has been trying unsuccessfully for years to provide bankruptcy judges this power. He, along with Illinois Sen. Richard Durbin, will try again when Congress convenes in January.

Let's hope the new Congress has the votes to put this change into action. Despite mortgage lenders' bad-mouthing, the bill not only would be good for homeowners, but also for the nation.

Foreclosure problem growing

The foreclosure problem is far from over. Experts think that 1 million U.S. homes could be foreclosed on next year. A Credit Suisse report is even more dire: It estimates 8.1 million U.S. home foreclosures by the end of 2012.

Miller, who thinks one in five U.S. home mortgages, or some 10.2 million, could ultimately end in foreclosure, says it's imperative to take action: "We are not going to stop the downward spiral of our economy until we stop the collapse of home values. And we are not going to stop the collapse of home values until we get control of foreclosures."

Expanding judges' power as Miller's bill would allow doesn't mean that every troubled mortgage would be modified. If a judge didn't think a person had the financial capability to keep up with a mortgage, then the mortgage wouldn't be restructured.

But it would give judges the ability to provide homeowners the type of help they now provide businesses. That should mean many more could hold on to their homes.

Home mortgage companies oppose granting judges this power, saying that it will end up costing consumers, as they will have to require bigger down payments and higher interest rates.

But Miller thinks little of this argument: "Independent academic studies have repeatedly shown that there is absolutely no basis" for such claims, he writes.

Who is the bailout benefiting?

It's about time Congress took action that would help the average American. So far, consumers have seen little direct benefit from the \$700 billion financial bailout passed by Congress.

The Congressional Oversight Panel appointed to monitor the Troubled Asset Relief Program, or TARP, recently criticized it for doing little to help troubled homeowners. "There is little evidence of what effect these billions of dollars are having on us," said the panel's chairwoman, Harvard law professor Elizabeth Warren.

In its first report, the panel raised many tough questions on foreclosures, including these: "Why has Treasury not generally required financial institutions to engage in specific mortgage

foreclosure mitigation plans as a condition of receiving taxpayer funds? Why has Treasury required Citigroup to enact the FDIC mortgage modification program, but not required any other bank receiving TARP funds to do so?"

(The panel wants to know your questions, comments or personal stories and concerns. You can relay them at its Web site [here](#).)

Since Miller and Durbin's announcement, other members of Congress also have spoken out. Last week, Speaker of the House Nancy Pelosi said she was directing House Financial Services Committee Chairman Barney Frank to craft a bill tying Treasury Department support of loan modifications to receiving the second \$350 billion of TARP funds.

Also last week, a "Streamlined Modification Program" went into effect for troubled borrowers with Freddie Mac or Fannie Mae primary residence mortgages. It should speed up and simplify their loan modification process.

Will it do any good?

Another report released this month, this one by the Comptroller of the Currency, provides more troubling news. He found that almost 53 percent of the loans that were modified in the first three months of 2008 became delinquent after six months.

This doesn't mean it's futile to help troubled homeowners and that loan modifications don't work. But, as the comptroller said, policy makers need to find out the reasons causing the defaults -- whether it's that monthly payments weren't reduced enough or that extra charges to make up for back payments made the loan harder to pay -- and use what they learn. Such information also would benefit bankruptcy judges, if Congress does what it should do and passes Miller's bill.